



COMMERCE COMMISSION

Further Work on the Reset Default Price-quality Path for Electricity Distribution Businesses

Updated Process Paper

Background

1. On 5 February 2010 the Commerce Commission (“the Commission”) published a paper¹ setting out the Commission’s proposed process for addressing further work on the Reset DPP.² The matters identified for further work included:
 - consistency with input methodology determinations (“IM consistency”);
 - starting price adjustments;
 - the use of an adjustment term within the allowable notional revenue formula (“headroom”);
 - consideration of dedicated energy efficiency mechanisms;
 - the potential use of quality incentives; and
 - enforcement guidelines.
2. The Commission invited submissions on its proposed process and received a number of these from interested parties. The remainder of this paper sets out the Commission’s updated process for addressing further work on the Reset DPP, having considered submissions.

Updated Process

3. This section provides a description of individual process updates for the matters of further work, followed by a summary of the overall updated process set out in Table 1. All dates and papers specified within the updated process are indicative only and may be subject to change. Whilst the Commission is not requesting submissions on its updated process, if interested parties have views they wish to

¹ Commerce Commission, *Further Work for the Reset Default Price-quality Path for Electricity Distribution Businesses Process Paper*, 5 February 2010.

² On 30 November 2009 the Commission published a section 52P determination giving effect to the default price-quality path for electricity distribution businesses (“EDBs”) – referred to as the “Initial Reset Determination”. The default price-quality path under the Initial Reset Determination applies from 1 April 2010 until 31 March 2015 and is referred to as the “Reset DPP”.

provide the Commission, these will be considered by the Commission and addressed, as necessary, during the remainder of the process.

Input Methodologies Consistency and Compliance Assessment Formula

4. Consideration of IM consistency and compliance assessment formula issues (e.g., headroom and avoided transmission charges) was originally scheduled as part of a June/July 2010 General Issues Discussion Paper encompassing all matters of further work for the Reset DPP.
5. Submissions commented that the structure and timing of this consultation may make it difficult for interested parties to consider all matters of further work and consultation on input methodologies at once.³ Vector also suggested that the Commission could look to consider matters of further work in separate consultation.⁴
6. In response to these submissions, the Commission has updated its process to include a separate “Reset DPP Refinements Discussion Paper” in July/August 2010 to address IM consistency and compliance assessment. The timing of this paper has been scheduled to take account of the input methodologies draft determination for electricity distribution services.
7. This process update does not affect the Commission’s intention to make a decision on a potential headroom mechanism prior to 30 November 2010, to coincide with the pricing year for EDBs. Accordingly, the timing of the Draft Amended Reset DPP Determination and Draft Decisions Paper remains unchanged, as does the timing of the Amended Reset DPP Determination and Final Decisions Paper.
8. In response to submissions on the “headroom” issue, the Commission considered the potential for advancing work in this area prior to the draft input methodologies determination for electricity distribution services.⁵ However, the Commission is mindful of the impact input methodologies may have on the specification of price, which may in turn affect the compliance assessment formula. As such, the Commission will consider headroom as part of the wider development of the compliance assessment formula alongside the IM consistency work stream as discussed above.
9. The key milestones for IM Consistency and compliance assessment formula issues are:
 - Reset DPP Refinements Discussion Paper – July/August 2010
 - Draft Amended Reset DPP Determination and Draft Decisions paper– September/October 2010

³ ENA, *Further Work for the Reset DPP*, 19 March 2010, page 1; Powerco, *Powerco Submission on Further Work for the Reset Default Price-quality Path for Electricity Distribution Businesses*, 19 March 2010, page 1; and Pricewaterhouse Coopers, *Further Work for the Reset Default Price-quality Path for Electricity Distribution Businesses*, 19 March 2010, page 4.

⁴ Vector, *Submission on Further Work Process Paper*, 19 March 2010, page 1.

⁵ Orion, *Submission on Reset of the Default Price-quality Path for Electricity Distribution Businesses*, 19 March 2010, page 2; and Unison, *Further Work for the Reset Default Price-quality Path for Electricity Distribution Businesses*, 19 March 2010, page 2

- Final Decisions Paper and Amended Reset DPP Determination – by 30 November 2010⁶

Starting Price Adjustments

10. Consideration of starting price adjustments was originally scheduled as part of a June/July 2010 General Issues Discussion Paper. In response to submissions concerning this proposed paper (as discussed in paragraph 5), the Commission has scheduled a separate “Starting Price Adjustments Discussion Paper” for August/September 2010.
11. The Commission notes submissions requesting the deferral of the starting price adjustment process until after the publication of finalised input methodologies.⁷ However, the Commission considers significant work can be undertaken on starting price adjustments alongside the development of input methodologies, and given the complexity of the work involved, it is important to develop its views and elicit the views of interested parties, as early as possible in the course of its work.
12. In regard to further development of starting price adjustments following the August 2010 discussion paper, the Commission has deferred the date of its information request to January 2011 to afford EDBs additional time to consider the input methodologies determination for electricity distribution services.
13. The above process updates do not affect the Commission’s intention to make starting price adjustments in the third quarter of 2011, and as such, the dates for the draft and final starting price adjustment determinations, and associated decision papers remain unchanged.
14. The key milestones for starting price adjustments are:
 - Starting Price Adjustments Discussion Paper – August/September 2010
 - Information request – January 2011
 - Draft Determination and Draft Decisions Paper – Q2/Q3 2011
 - Final Determination and Decisions Paper – Q3 2011

⁶ Given that the purpose of the Amended Reset DPP Determination is to ensure consistency with input methodologies, its timing is contingent on the publication of finalised input methodologies. Whilst the Commission intends to publish these input methodologies by 30 November 2010, the Commission has until 31 December 2010 to make its determination. If the Commission considers it necessary to make the input methodologies determination for electricity distribution services in December 2010, it will advise interested parties of a revised publication date for the Amended Reset DPP Determination and its intentions concerning the potential implementation of a headroom mechanism

⁷ ENA, *Further Work for the Reset DPP*, 19 March 2010, page 2; and Pricewaterhouse Coopers, *Further Work for the Reset Default Price-quality Path for Electricity Distribution Businesses*, 19 March 2010, page 5.

Energy Efficiency and Quality Incentives

15. The Commission has deferred further consultation on energy efficiency⁸ and quality incentives until 2011. The Commission originally intended to consider these matters as part of its June/July 2010 General Issues Discussion Paper, but now considers that these matters may be better addressed in 2011 when a number of aspects of the DPP have been progressed. In particular these are the specification of price, the compliance assessment formula, IM consistency, and the starting price adjustment methodology.
16. The Commission notes Vector's request for prioritisation of further work on energy efficiency and quality incentives, but considers the progression of the DPP issues noted above necessary to allow the Commission to undertake a better informed analysis of the potential for incorporating energy efficiency and quality incentive mechanisms into the Reset DPP.⁹ The specific timing of further consultation will be clarified in light of the progress on other Reset DPP work streams.

Enforcement Guidelines

17. The Commission notes the requests of submissions for further detail of the process for developing enforcement guidelines for the Reset DPP. The Commission intends to consider the development of enforcement guidelines as a separate project to the Reset DPP and will release a relevant timetable for consultation shortly.

⁸ The Commission addressed energy efficiency as part of the Initial Reset Determination by providing Non-exempt EDBs with the flexibility to adjust their pricing structures under the Reset DPP. For further discussion see paragraphs 2.40-2.51 of the Commission's *Initial Reset of the Default Price-Quality Path for Electricity Distribution Businesses - Decisions Paper* published 30 November 2009.

⁹ *Supra* n 4, page 2.

Table 1: Updated Timing of Further Work for the Reset DPP¹⁰

Overall Process - Key Step	Indicative Date
Reset DPP Refinements (IM Consistency & Compliance Assessment Formula) Discussion Paper published	July/August 2010
Starting Price Adjustments Discussion Paper published	August/September 2010
Submissions due on Reset DPP Refinements Discussion Paper	August/September 2010
Reset DPP Refinements <ul style="list-style-type: none"> ▪ Draft Decisions Paper published ▪ Draft Amended Determination published 	September/October 2010
Submissions due on Starting Price Adjustments Discussion Paper	December 2010
Reset DPP Refinements <ul style="list-style-type: none"> ▪ Submissions due on Draft Decisions Paper ▪ Submissions due on Draft Amended Determination 	Late October 2010
One week technical consultation on the Amended Determination	Mid November 2010
Reset DPP Refinements <ul style="list-style-type: none"> ▪ Decisions Paper published ▪ Amended Determination published ▪ Gazette Summary published 	30 November 2010
Reset DPP Enhancements (Energy Efficiency & Quality incentives) Discussion Paper published	2011
Information Requests for Starting Price Adjustments	January 2011
Starting Price Adjustments Information Request due	April 2011
Starting Price Adjustments <ul style="list-style-type: none"> ▪ Draft Decisions Paper published ▪ Draft Amended Determination published 	Q2 / Q3 2011
Starting Price Adjustments <ul style="list-style-type: none"> ▪ Submissions due on Draft Decisions Paper ▪ Submissions & technical consultation due on Draft Amended Determination 	Q3 2011

¹⁰ Please note that all dates are indicative and are subject to change.

<p>Starting Price Adjustments</p> <ul style="list-style-type: none">▪ Decisions Paper published▪ Amended Determination published▪ Gazette Summary published	<p>Q3 2011</p>
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